

IA 2220

45-006

STATE OF IOWA

Underpayment of Estimated Tax by
Corporations and Financial Institutions

1996

NAME

Fed. Emp. Ident. No.

Computation of Underpayment

NOTE: If you meet any of the exceptions (see Instruction D) that avoid the underpayment penalty for ALL quarters, omit lines 1 through 9, and go directly to line 10.

1. 1996 tax (line 19, Form IA 1120 or line 11, Form IA 1120A or line 15, Form IA 1120F)
2. Total credits (line 20, Form IA 1120 or line 17, Form IA 1120A) or minimum tax carryforward credit (line 16, form IA 1120F)
3. Balance (subtract line 2 from line 1)
4. 90% of line 3

Due Dates of Installments

5. Enter in columns 1 through 4 the installment dates that correspond to the last day of the 4th, 6th, 9th, and 12th months of your taxable year
6. Enter 25% of line 4 in columns 1 through 4
7. (a) Amount paid or credited for each period
(b) Overpayment of previous installment (an overpayment on line 9 in excess of all prior underpayments is to be applied as a credit against the next installment)
8. Total of line 7(a) and line 7(b)
9. Underpayment (line 6 less line 8) or overpayment (line 8 less line 6)

(1)

(2)

(3)

(4)

Exceptions that Avoid the Underpayment Penalty (See Instruction D)

10. Total cumulative amount paid or credited from the beginning of the taxable year through the installment dates that correspond to the last day of the 4th, 6th, 9th and 12th months of your taxable year
11. Exception 1: Prior year's tax
12. Exception 2: Tax on prior year's income using current year's rates
13. Exception 3: Tax on annualized income

25% of tax

50% of tax

75% of tax

100% of tax

25% of tax

50% of tax

75% of tax

100% of tax

22.5% of tax

45% of tax

67.5% of tax

90% of tax

Computation of Underpayment Penalty

14. Enter same installment dates used above
15. Amount of underpayment from line 9
16. Date of payment
17. (a) Number of days from due date of installment to date of payment or Dec. 31, 1996, whichever is earlier
(b) Number of days inclusively from Jan. 1, 1997, or due date of installment whichever is later, to the date of payment or the last day of the fourth month after the close of the tax year, whichever is earlier
18. (a) 11% a year on the amount shown on line 15, for the number of days shown on line 17(a) (See Instruction F)
(b) 10% a year on the amount shown on line 15 for the number of days shown on line 17(b) (See Instruction F)
19. Total of lines 18(a) and 18(b)
20. Penalty: Add the four columns of line 19 and enter here. Also, show the amount on line 25, Form IA 1120 or line 22, Form IA 1120A or line 20, Form IA 1120F.

INSTRUCTIONS

- A. Purpose of Form — **Form IA 2220 will enable corporations and financial institutions to determine if they paid the correct amount of estimated tax by the proper due date. If the minimum amount was not paid timely, an underpayment penalty is imposed for the period of the underpayment. This form helps you to determine whether or not you are subject to such a penalty.**
- B. Estimated Tax — **Every corporation or financial institution expecting to have \$1,000 or more in tax due after credits is required to file an estimated tax.**
- C. Use of 1996 Form — **The 1996 form must be used for taxable years beginning on or after January 1, 1996, and on or before December 31, 1996.**
- D. Exceptions that Avoid the Underpayment Penalty — **No penalty will be charged for any underpayment on line 9 if:**
- 1) **all of the payments were made on or before the due date of the installment, and**
 - 2) **the total payments made by that installment date equal or exceed the amount which would have been due if the estimated tax were calculated using any of the exceptions listed below.**

A different exception may be applied to each underpayment. If there has been an underpayment of the amount of the estimated tax, and the taxpayer believes that one or more of the exceptions to the penalty precludes the assertion of the underpayment penalty, the taxpayer should attach a statement showing the applicability of any exception upon which the taxpayer relies. If no exception applies, complete lines 14 through 20 to determine the amount of the penalty.

Exception 1: Prior year's tax — This exception allows corporations and financial institutions to substitute for the current year's estimated tax the amount of the tax shown on the return for the preceding taxable year. This exception may be utilized only if the preceding taxable year was a taxable year of twelve months and a return showing a tax liability was filed for that year. Corporations or financial institutions filing an initial year Iowa return may not use exception 1.

Exception 2: Tax on prior year's income using current year's rates — This exception allows corporations and financial institutions to use a tax computed by using the current year's rates but otherwise on the basis of the facts and law applicable to the prior year. Corporations and financial institutions filing an initial year Iowa return may not use exception 2.

Exception 3: Tax on annualized income — This section applies if the corporation or financial institution made an estimated tax payment of at least 90% of the amount it would owe if its estimated tax were a tax computed on annualized taxable income for the month preceding an installment date.

A corporation or financial institution may thus annualize its income:

- (a) **for the first 3 months if the installment was required to be paid in the 4th month;**
- (b) **for the first 3 months or the first 5 months if the installment was required to be paid in the 6th month;**
- (c) **for the first 6 months or the first 8 months if the installment was required to be paid in the 9th month; and**
- (d) **for the first 9 months or for the first 11 months if the installment was required to be paid in the 12th month.**

To annualize, multiply taxable income for the period by 12 and divide the resulting amount by the number of months in the period (3, 5, 6, 8, 9, or 11, as the case may be). Attach corporation income statements for appropriate months in the tax period.

- E. Overpayment — **A payment of estimated tax on any installment date is considered a payment of any previous underpayment only to the extent the payment exceeds the amount of the installment as computed on line 6.**
- F. To Compute Penalty — **Use the following formula:**

$$\text{Penalty} = \begin{array}{c} \text{daily percentage rate} \\ \text{(line 18)} \end{array} \times \begin{array}{c} \text{number of days} \\ \text{(line 17)} \end{array} \times \begin{array}{c} \text{underpayment} \\ \text{(line 15)} \end{array}$$

The daily percentage rate is: 11% per annum = .03014% per day (1/1/96 - 12/31/96)
10% per annum = .02740% per day (1/1/97 - 12/31/97)

Please attach this form to your Corporation Income Tax Return, Form IA 1120 or IA 1120A or on Form IA 1120F.